ON THE

CAUSES AND CONSEQUENCES

OF

THE PRESENT MONETARY CRISIS:

OR,

THE FIRST PRINCIPLES OF POLITICAL ECONOMY

APPLIED TO

THE GOLD SUPPLIES.

"GOD INTENDED THAT MAN SHOULD LIVE BY SOBER TOIL. ALL DEPARTURES FROM THIS GREAT LAW OF OUR SOCIAL EXISTENCE LEAD TO RUIN."
—*Barnes.*

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PREFACE.

The writer of the following remarks cannot plead youth or inexperience in extenuation of error. He took some part in the discussion which followed the publication of the memorable Report of the Bullion Committee in 1810, and was well acquainted with Mr. Ricardo and Mr. Huskisson. For many years he was Private Secretary to the Finance Secretary of the Treasury, and subsequently Secretary to the Parliamentary Commission of Inquiry into the Revenue of the United Kingdom, of which Mr. (afterwards Lord) Wallace was Chairman, and the late Sir Frankland Lewis an active member. On leaving this Commission he was one of two who had the direction of the Commissariat Department, then under the Treasury. He took peculiar interest in the arrangements connected with the supply of

money to the military chests, and in the measures necessary to introduce the English currency into the Colonies. He was, in fact, the first who pointed out the mistake in the valuation of the dollar, which for so many years prevented the success of that important measure. On the reduction in the Commissariat Department he retired, and became a Director of one of the largest Country Banks in England, taking the management of the London department. The subject of finance, currency, and banks has, therefore, been familiar to him for nearly half a century.

The present work, he is quite aware, contains rather general principles and results than the process of reasoning and the details by which they were arrived at; to have gone at length into the subject would have required volumes, which he has neither leisure nor inclination to write.

The greater part of what he has now printed was written in May, 1854, and, he believes, read by some of his friends; but he made no converts, and therefore withheld the publication until the symp-

toms of that reaction which he thinks inevitable had become decided.

Whilst *apparent* prosperity continues, very few are disposed even to read, much less to weigh and consider, opinions entirely in opposition to the popular mode of thinking and writing. That the writer's conclusions are correct he fears painful experience will prove. He can, however, with great truth say, that he is prepared to rejoice as much as any man should it be found that he is entirely and altogether mistaken.

18*th May*, 1857.

The reaction which the writer anticipated having become decided in America, he thinks it desirable to publish what he has written. Two or three notes have been added, taken from the evidence given before the Committee of the House of Commons on the Bank Acts, recently published.

10*th October*, 1857.

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CAUSES AND CONSEQUENCES OF THE PRESENT MONETARY CRISIS.

CHAPTER I.

INTRODUCTION.—FIRST PRINCIPLES.

If the principles of political economy, as now generally received, were correct, would they not have enabled us to predict, with some degree of certainty, the consequences of the vast influx of gold which has been going on for seven years, as well as to explain the cause of the high rate of interest on money, which has prevailed both in time of war and peace, for nearly half that period?

To discuss these two subjects in any moderate space it will be necessary to throw aside a great many collateral arguments, and to take for granted many disputed points. An appeal must be made from the usually received views of political econo-

mists to the first principles of the science, and to the plain common sense of mankind. Not that we are disposed to think lightly of political economy; on the contrary, we are amongst its warmest admirers, and especially do we venerate its admirable founder, Adam Smith. We do not forget, however, that he printed his great work in 1775. Since that time we have had the French Revolution and its assignats, the Bank Restriction Act and its working, and we have now the gold discoveries and their produce: events which have at least added to our experience, if not to our knowledge.

At the time Adam Smith wrote, and for many years afterwards, it is well known that the truths he so ably put forth were entirely disregarded; they made their way very slowly, and it was not until after the peace of 1815 that they obtained distinct and extensive legislative action.

On the question of labour, the foundation-stone of his great work, he thus expresses himself:—

"Labour, therefore, is the real measure of the exchangeable value of all commodities. The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased with labour

as much as what we acquire by the toil of our own body. That money, or those goods, indeed save us that toil. They contain the value of a certain quantity of labour, which exchange for what is supposed at the time to contain the value of a certain quantity. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased, and its value, to those who possess it and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command."

Whilst the fundamental truth thus so well expressed has been universally acknowledged, no writer in modern times has attempted to push it to its legitimate consequences.

In Adam Smith's own efforts to show how largely the productive powers of labour were increased by the division of labour, it is generally admitted that he overstated the case. But since 1775 machinery, steam, and the other discoveries of science, have done so much for the productive powers of labour, that the mere division of labour, as a means of adding to its productive power, has been thrown entirely into the shade. Even the article of pins, to which Adam Smith refers, as showing the vast advantage of this division, may now be quoted to show the far greater advantages of machinery.

The enormous increase in this productive power

will, of course, be admitted without argument or proof. With reference to this point, however, we will just insert, almost at hazard, the following extract from the speech of the Chairman at a Meeting of mechanical engineers at Glasgow, taken from the "Times" of the 22d September, 1856:—

"Indeed, it must be obvious to reflecting minds that the increased luxuries and comforts which all more or less enjoy, are derived from the numerous mechanical appliances, and the production of our manufactories. That of our cotton has increased during the last few years in a wonderful degree. In 1824, a gentleman with whom I am acquainted, sold on one occasion 100,000 pieces of 74 reed printing cloth, at 30*s.* 6*d.* per piece, of twenty-nine yards long, the same description of cloth being sold last week at 3*s.* 9*d.* One of the most striking instances I know of the vast superiority of machinery over simple instruments used by the hand, is in the manufacture of lace, where one man with a machine does the work of 8,000 lacemakers on the cushion. In spinning fine numbers of yarns, a workman on a self-acting mule will do the work of 3,000 hand-spinners, with the distaff and spindle, and there are other striking facts of a similar kind mentioned in my Report on the New York Industrial Exhibition. Comparatively few persons perhaps are aware of the increase of the production during our lifetime. Thirty years ago, the cost of tracing a surface of cast iron, by clipping and filing with the hand, was 12*s.* per square foot; the same work is now done with the planing machinery at a cost of labour of 1*d.* per square foot, and this, as you know, is one of the most important

operations in Mechanics. It is therefore well adapted to illustrate what our progress has been."

It may admit of some question whether up to the period at which Adam Smith wrote, the great social evils of life with which Political Economy deals had not mainly arisen from poverty; in other words, from the actual want of the productions of labour in sufficient abundance. At all events, this was so far an open question as to justify his directing almost exclusive attention to it; and, in consequence, to increase the produce of labour and to economise its consumption are his great themes. It is here that it has been the glory of modern statesmen to apply his principles and to walk in his steps.

It will nevertheless be admitted—indeed, it follows from Adam Smith's fundamental truth before alluded to—that the only real economy, whether of individuals or of Governments, that which is and must be its ultimate result, is the *non-consumption of the produce of labour*. There is no other economy. Let any individual when he saves his money trace the effect to its consequences, and he will see that either he is prevented, or some other individual is prevented, from obtaining labour or its produce. We are not inquiring whether it be right or wrong to save money, nor whether the *acmè* of human wisdom has or has not been attained by our modern advocates for economy; we are only stating what

is its unquestionable end. Deceived by such words as Capital, Profits, Price, Credit, &c., &c., we entirely forget our starting-point—the only foundation of the deep and difficult science of Political Economy,—that labour, past, present, or future, is the only thing with which man has to deal. It may be added, that the only object of labour is to produce articles that may be "used and consumed;" and the only object of money, to facilitate the distribution of those articles, that they may be so "used and consumed."

If, then, as Adam Smith says, and as every one whose opinion is valuable allows, Labour is our sole and only property, does it not admit of a question whether, if that great man were now alive and witnessed the state of modern society, and the immense additions that have been made to the productive power of labour, he would, consistently with his own theory of "supply and demand," feel and write so anxiously in 1857 as he did in 1775 in regard to the *non-consumption* of its produce. At all events, the subject itself is worthy of examination.

If we assume that his views as to labour are correct, are not the following deductions equally indisputable?

1st. That the only income of a nation is the produce of its annual labour, taking that word in its largest sense, as including land and the various aids

which the elements, machinery, &c., supply the labourer.

2d. That the only real profit of a nation is the difference between what labourers produce, and what they consume whilst so producing. For example, supposing a man labours six days, and consumes the produce of four, the profit of the nation is two days' labour; but supposing that by the aid of machinery, &c., his six days' labour become equal to eight days' labour, his consumption remaining the same, the profit becomes equal to four days' labour.

3d. That in proportion as the labourer is assisted by machinery, steam, &c., this national profit increases, until, as in the case of the lace-maker before adverted to, it becomes enormous.

4th. That this profit increases also in proportion to the economy and self-denial of the labourer, whether voluntary or forced.

5th. That as the nation can only deal with past, present, and future labour, there are only two ways by which it can diminish its income or become poorer — 1st, by the non-employment of its labourers; or, secondly, by the consumption or destruction in the course of the year of a larger amount of its existing accumulations than those labourers reproduce.

6th. That labourers may be employed more or less usefully, but as in England society must find them

in food, to allow them to be altogether without employment is absolute loss.

For the purposes of our present argument, the wealth of all civilized nations may be divided into three portions; for though each portion is constantly trenching, as it were, on the other, yet they are sufficiently distinct for practical purposes.

1st. There is the accumulated labour — or, in other words, the houses, furniture, jewellery, &c., the produce of past years, which, being of a nature more or less permanent, have, by the operation of home and foreign trade, been distributed into the hands of those who "use and consume" them.

2d. The stock of similar articles in the hands of the producers, middlemen, shopkeepers, and others, which is necessary to keep up the wear and tear of the existing stock of accumulated labour, and to add to that stock, as the wealth of each nation increases. This by way of distinction may be called the "resting stock."

Lastly. The stock of food necessary for consumption until the new supplies are ready; the stock of raw materials on which the labourers are to be employed; and the tools, machinery, steam-engines, &c., required for their use.

With regard to the first of these items, the "accumulated labour," little need be said; in ordinary times it has not much effect on the pros-

perity or adversity of a nation. A house once erected and furnished is, of course, valuable property to the owner, and adds much to his comfort, but so long as he keeps it out of the market, it has no influence on the prosperity of the nation at large, it is his own "accumulated labour." Neither is it very material, in a national point of view, when he exchanges this house, &c., for any other "accumulated labour" already existing. Both parties to the exchange may be benefitted by it, but there is only the same quantity of wealth as before. It is, however, necessary for the interests of the nation that such exchanges should not be impeded, in order that the accumulated stock of labour may get into the hands of those who want, and will therefore "use and consume" it; without this the way would not be cleared for the "resting stock," described under the second head, as on hand to replace and add to it. It is to this "resting stock" that we must look for the signs of a nation's prosperity or adversity. It is clear that unless this stock finds its way into the hands of those who "use and consume" it, the demand for the materials and labour adverted to under the third head, must soon cease. Even the stock of food itself will not get completely into consumption. The labourer has nothing to give in exchange for food but labour, and if that labour is

not in demand, it is obvious, if he consumes, it must be without giving any equivalent.

It may be remarked here that it would very advantageously narrow the field with which political economy deals, if for ordinary practical purposes we were to throw aside the existing produce of past years, already in the hands of those who "use and consume" it; and in discussing what relates to the real welfare of a nation confine our attention exclusively to the "resting stock," and to the reproduction of that stock. It is only on those extraordinary occasions of distress, when something occurs to prevent the use and consumption of this "resting stock," and the way is not in consequence so cleared as to cause a demand for the reproductions of current labour, that some part of the previous stock of "accumulated labour" is forced into the market; it then greatly adds to the existing evils by still further diminishing the demand for the "resting stock," and in consequence the employment of labourers to reproduce that stock.

To return to the subject, the process by which the more permanent portion of the "resting stock" is added to the "accumulated labour" of the nation, the remainder being consumed, and that "resting stock" is again reproduced by the labourers, goes on in every civilized country, and is indeed essential

to its existence. It would obviously go on, though with much less convenience, by barter, if there were no money.

Money is only an invention to facilitate this necessary work.* It is to trace the effects of this invention that the remainder of these remarks will be devoted. The subject necessarily connects itself with banking, currency, &c., and is therefore somewhat abstruse and complicated, but we shall endeavour to make it as clear as we can.

* "Money is only the medium through which barter is established."—Lord Overstone's Evidence, Committee on Bank Acts, Question 4,060.

CHAPTER II.

ON THE MONETARY LAWS.

IT is singular to observe how much the introduction of money has deceived the ablest men, and complicated the most simple affairs. We look constantly at the money, and not at the *transaction*, which the money is merely the instrument of facilitating. Take a familiar example:—A. sells a horse for money, and with that money buys a carriage; what A. really does is to *exchange* a horse for a carriage, and the money which has availed him for the purpose still exists to do a similar office for any other person, just as a yard having been used to measure one piece of cloth is available to measure another.

In proceeding to discuss the Monetary Laws we shall suppose money or currency, (for in the sense in which we use the two words they are synonymous,) as we did national wealth, to be divided into three portions, and describe its ordinary uses, observing as before that though these uses necessarily blend one with another, they are sufficiently distinct for practical purposes.

The first division or use of money, and perhaps

the most important, is to pay the labourer whilst occupied in producing, whether it be corn, manufactures, or other articles. The money so paid in wages to the labourer goes from him to the petty shopkeeper, for the purchase of food or of some portion of the "resting stock;" from the shopkeeper it goes to the wholesale dealer; from the wholesale dealer it finds its way back to the employer of labour or producer; and from him again to the labourer. This exchange of labour for produce, which money merely facilitates, lies at the root of almost every trading or commercial enterprise.

The great extent to which the money rate of wages necessarily affects the purchase of produce, and thereby enables the labourer to consume more or less, must not escape attention. It is a point of considerable importance in the subsequent argument.

The money itself, the instrument of these transactions, can be compared to nothing more aptly than to the blood in the human body; the quantity is limited—it is always in circulation, moving more or less rapidly according to the healthy or unhealthy state of the body politic. This portion of money consists mainly of specie, and much of it is necessarily in the smaller denominations of coin.

The second division may be considered that portion of money which the higher and middle classes, living on independent incomes, merchants and others,

require for ordinary use, to enable them to exchange their existing stock of produce or "accumulated labour" with each other, or to replace, and add to it out of the "resting stock," or out of the produce of current labour. In England a considerable portion of this money often consists of Bank of England and other cash notes of 5*l.* and upwards.

The third division is that portion which is used by bankers and other dealers in money; in the advance and repayment of loans, and in their various pecuniary transactions, including also their "reserve," or what is kept in their coffers, idle as it were, to meet possible demands. This portion, particularly the latter, is usually in bank-notes of large amount.

It is very common to hear people who ought to know better, talk of the "investment of money," and apparently taking it for granted that money "invested" by an individual, or a body of men, is really money disposed of, or made away with; in the same way as equally sensible people, a century ago, talked about the blood being made away with after it had left the heart.

The simple fact is, however, that money "invested" only changes hands, and after each change or "investment" it wants employment or "investment" as much as before. Often the very same day, if not required to augment a banker's "reserve," it goes from hand to hand either to pay a bill or a

debt, or to be again "invested." In these busy times it is calculated that each "investment," as it is called, occupies on an average forty-eight hours, so that a 50*l.* note changes hands at least 150 times in the course of a year, whilst a sixpence or a shilling often pays six or eight debts in one day. It is thus that a moderate amount of money only is required to complete a vast number of transactions.

The extent to which banks assist the money circulation or currency, and in fact supersede it, especially in England and America where they are so numerous, is very great. Let us give an example. A person having money in a bank purchases goods, say to the extent of 100*l.*, and pays for them by a cheque on that bank. If it so happens that the seller of the goods has an account at the same bank, the transaction is concluded by a transfer in the books of the bank, from the account of the buyer to the account of the seller, without any notes, or what is more strictly called money, passing. It often occurs that the seller of the goods, instead of sending the cheque direct to the bank, pays it to another party in discharge of a debt or for goods; that party again pays it to a third, and the cheque in its progress to the bank settles half-a-dozen accounts or more, thus doing the business and answering the purpose of cash notes or money.

In illustration of these bank credits doing the

ordinary business of money, it may be mentioned that a country banker in rather a considerable town, where at one time there were two banks, agreed to take off the business of his rival, who had a cash note circulation of nearly 20,000*l.*; after having done so he complained that his own circulation did not increase more than 10,000*l.* or 12,000*l.* On asking him, however, whether he did not find the number of bank credits, or in other words, the amount of money on private accounts, increase, as well as the number of cheques drawn on such accounts, he was obliged to admit that he did; and he was ultimately convinced that the diminution of the cash note circulation arose entirely from the increased number of private accounts opened with his bank, and the consequent increased number of business transactions settled, without the intervention of any cash notes, by transfers from party to party in his own books.*

It follows from this view of the subject that a well-established bank, whether a bank of issue or not (for in the action of bank credits this is not material,) often provides for the transaction of an indefinite increase of business transactions, with little or no

* It is not necessary for my present purpose, but it may be as well incidentally to observe, that when bills of exchange are used, like cheques, to settle accounts, they act as bank notes or money, and to the extent of such use may be considered as adding to the amount of money or currency.

addition to the actual currency—*i. e.*, cash notes or specie. In fact, such a bank, when it gets into business, has precisely the same effect as an augmentation of the currency, and, for all practical purposes, it is most important it should be so considered.* It may be added that the extent to which the country bankers, by exchanging cheques and cash notes between themselves; and the London bankers, by doing the same through the medium of the "clearing house," still further economize the use of Bank of England and other notes, as well as specie, is very great; these arrangements are, however, too well known to require more than a passing allusion.†

* This accounts for the gradual diminution of the bank circulation of late years, as well as the lower denomination of the notes. Average,—1853, 22,633,000*l.*; 1854, 20,709,000*l.*; 1855, 19,793,000*l.*; 1856, 19,668,000*l.*—*Committee on Bank Acts:* Question 2,531.

† In 1839, the last year for which we have any published statements relating to the clearing house, it appears that accounts to the extent of 954 millions were settled with the use of only sixty-six millions of cash notes. In the year 1854, an arrangement was made, by means of which even this limited quantity of currency has become unnecessary, and the London bankers now settle at the clearing house by giving cheques on the Bank of England.

Let us hope that the clearing house accounts will soon again be published, for although, owing to the manner of conducting certain stock and other business, they do not afford a good index to the actual amount transacted, they afford an admirable one of its relative increase or diminution.

The laws that determine, in different countries, the relative quantity of money, or whatever is used to facilitate transfers, and thus answer the purpose of money, do not appear by any means well ascertained. The subject is one on which political economists have thrown very little light; indeed, it may be considered somewhat out of their province, depending, as it appears to do, on the nature of the Government, and the confidence placed in it, as well as on the customs of the people, habits of hoarding, state of credit, &c. All that we know is, that money like water finds its natural level, and that without the aid, or we might say, often in spite of the efforts of legislation, every country has, and permanently keeps possession of, the quantity peculiarly suited to its wealth and circumstances. Experience has, however, enabled us to ascertain that when there is in any country a considerable augmentation of currency, or whatever acts as currency, other things remaining the same, this currency falls in value. The first effect of this fall is to make an *apparent* rise in the price of every article with which money comes in contact; we say, apparent, because it is self-evident that, as these articles still contain precisely the same quantity of labour as they did before the quantity of money was increased, they must remain of the same *real* value. Money is only a measure of value, and cannot alter it. When the length of a yard is diminished,

the length of a piece of linen measured by that yard is *apparently* increased, so when the value of the sovereign or bank note is diminished, the value of the same piece of linen, or of any other article measured (*i. e.,* estimated in money), is *apparently* increased.

To return to the subject: this apparent rise in price, whilst it is first visible in those articles which are the least capable of rapid and indefinite increase, ultimately, if continued long enough, affects all. For example, suppose the value of money falls five per cent., articles that would otherwise have been stationary, rise five per cent.; articles that would, from the state of supply and demand, have risen five per cent., rise ten per cent., and articles that, from the same cause, would have fallen five per cent., do not fall at all.

It is because the ordinary laws of supply and demand continue in full force, and that their action is even stimulated by additions to the currency, that what are called practical men make so much difficulty in admitting the fact of a rise in prices occasioned by a fall in the value of money.

To continue;—if this fall is merely the result of an excess of money in the particular country where such rise in prices takes place, experience has further proved that, in accordance with the law of "supply and demand," the second effect of the excess will be

to force an export of a portion of the surplus money to those countries where the quantity is relatively lower.

Foreign goods partaking of the high nominal price of home goods will be imported, and, in consequence of the high price of the latter, money and not goods will be taken away, until the general equilibrium is restored.

If the currency of the particular country does not consist of the precious metals, or is not exchangeable for them so as to be readily exported, the equilibrium is restored by an actual alteration becoming apparent in the value of that currency itself. This was the case in this country in 1810, when the pound note would only exchange for 16*s.*, and is now the case in Spain, Russia, &c. No country can for any long period of time have currency to a larger amount and of greater value than that which *relatively* belongs to it; the law of supply and demand prevents it.

It must, nevertheless be observed, that an action on the currency of one country; by an increased issue of paper for example, is often followed (before an export of money is forced) by a similar action in other countries. The general supply of currency in the world is thus for a time increased, and a special export from the one offending country becomes unnecessary.

Under any circumstances the whole surplus is not exported, but only such a proportion of it as will bring other countries to the *relative* level of the exporting country.

CHAPTER III.

ON NATIONAL ACCUMULATIONS AND THE MANNER OF THEIR OPERATION.

NATIONAL accumulations are very important in the consideration of the question we are discussing; let us therefore inquire, in the first place, how they arise.

For this purpose we will assume that a hatter in a given town employs 100 labourers, that they produce a profit represented by 500*l.*, that is to say, the value of their labour, over and above what the labourers "use and consume" amounts to that sum. If we also assume that the hatter lives and keeps his family on 300*l.*, it is clear that he will at the end of the year have accumulated a value to the amount of 200*l.*; in other words, he will have a power over the comfort and conveniences of life already existing, or over the labour market or future annual income of the country, represented by 200*l.* If he is not disposed to employ this sum in his own trade, he may lend it to any other trader and obtain interest, that is, a portion of the profits of the trader, or he may open

an account with a country banker and deposit the amount with him on what is called an interest note. But what will the country banker do with the 200*l.*? It is reasonable to assume that he has already a "reserve" in the country equal to his wants, and as he is to pay the hatter a certain rate of interest he ought to make one somewhat higher. He might, if he thought fit, lend the 200*l.* to any local trader, and it would then be employed in augmenting the "resting stock" of the county in which his bank is situated; thus coming to the same result as if the hatter had himself so employed it, except that the hatter and banker would divide the interest, the latter being paid for his guarantee and trouble. Let us suppose, however, that the country banker sends the 200*l.* to his London banker, the same question again arises; what would the London banker do with the 200*l.*? He would equally desire to make an interest on the amount, and the material point to observe is, that in order to do this the 200*l.* must in some way get connected with the labour market. Whilst kept in the shape of money it pays no interest; it is like any other "accumulated labour," a table or a chair, for example, only not so useful.

If the London banker buys into the funds with the 200*l.* he gets his interest out of the future taxes; if he buys railway shares, he gets it out

of the future income of the passengers; if he discounts a bill for a manufacturer, he gets it out of the manufacturer's future profits. The banker knows very well that if his interest merely comes out of the old stock of "accumulated labour" it must soon cease; he therefore takes care to lend the hatter's money to one whose business is either connected with the "resting stock" or the labour market, and who in consequence will, he thinks, employ it profitably.

We have given the single case of the hatter, and the money acquired by him, in order to illustrate the mode of national accumulation, to show, as it were in detail, the manner in which what is called the "monied class" is formed.

Notwithstanding the name given to this very important body, and their enormous wealth, it is nevertheless certain that a very small portion of the real accumulations or savings of the country remain in the shape of money. Every man who has more money than is sufficient for his immediate wants, even if he is not himself anxious to make interest upon it, has no wish to keep it in his own hands, and it therefore finds its way, either through a banker, or an attorney, if not directly without their intervention, to those who are in some way or other connected with the labour market, or the "resting stock," and working for profit.

If we go into a shop, the stock of goods we see there does not represent the *bonâ fide* accumulation of the shopkeeper. In some rare cases it may do so, but, in the great majority, one-half, two-thirds, or more represent the property of the "monied class" —the private loan—the bill discounted—the bank advance—or, it may be, the produce of the wholesale dealer, who is himself assisted by the "monied class."

It is material to observe that the main bulk of national accumulations or savings, when not interfered with, never remain long as money;—where property is safe and credit good, they assume the shape of produce,* and thus increase national wealth, and with it national comfort and happiness.

The manner in which, among other things, the "monied class" enables "demand and supply" to be adjusted is very well put in the following extract from Ricardo's "Principles of Political Economy," Ed. 1817, pp. 84-5 :—

"In all rich countries there is a number of men forming what is called the 'monied class.' These men are engaged in no trade, but live on the interest of their money, which is employed in discounting bills, or in loans to the more industrious part of the community.

* Of course, this word will be understood to mean railroads, houses, mines; in short, all sorts of "accumulated labour" or property.

"The bankers, too, employ a large capital on the same objects. The capital so employed forms a circulating capital of a large amount, and is employed in larger or smaller proportions by all the different trades of a country. There is, perhaps, no manufacturer, however rich, who limits his business to the extent that his own funds alone will allow; he has always some portion of this floating capital, increasing or diminishing according to the activity of the demand for his commodities. When the demands for silks increase, and that for cloth diminishes, the clothier does not remove his capital to the silk trade, but he dismisses some of his workmen, he discontinues his demand for the loan from bankers and monied men; while the case of the silk manufacturer is the reverse. He wishes to employ more workmen, and thus his motive for borrowing is increased; he borrows more, and thus capital is transferred from one employment to another without the necessity of a manufacturer discontinuing his usual occupation. When we look to the markets of a large town, and observe how regularly they are supplied both with home and foreign commodities in the quantity in which they are required, under all the circumstances of varying demand arising from the caprice of taste or the change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that is required is more active than is generally supposed."

The practical working of the same system in the

case of a collapse may be seen in a remarkable modern instance, viz., in France, in 1848. When the Revolution occurred, the alarm made the "monied class" anxious to realize; money was withdrawn from the banks, debtors called on to pay, and every man having produced any portion of his "resting stock" with money not his own, or not assured to him for a fixed period, failed; produce became exceedingly cheap, in many cases unsaleable; labourers were thrown out of employment; and all trade, beyond supplying the actual wants of the day, was at a stand.

As soon, however, as anything like a permanent Government was re-established, confidence returned. Producers were again willing to borrow, and monied men to lend. Bills were discounted, loans made, labourers were employed to reproduce the "resting stock;" and the return to prosperity was much more rapid than those who were not acquainted with the hidden springs which govern these matters could have anticipated.

In further considering this subject, there is one point which it is very important to bear in mind. When one of the "monied class" grants a loan on the security of goods, or discounts a bill drawn on the sale of such goods, and thus temporarily replaces to the producer the money expended by him on their production, he (the monied man),

during the time his money is unpaid, becomes virtually the holder of the goods.

If the buyer paid for the goods with his own money, they would be his; but they are not actually his when he has only put his hand to a bill or note, and the money, that is to say, the command over the comforts and conveniences of life or the labour market, has been advanced by another party. When the buyer has paid the bill, of course he takes the place of the "monied man," and becomes the real owner. Take a familiar case by way of illustration: A. buys a carriage of B., but has no money to pay for it. B. draws a bill on A., payable in six months, and takes that bill to C., who lends him the amount. It is evident that C. becomes virtually the purchaser of the carriage, the one who actually pays the money for it, and that he remains so until B. pays the bill.

It will readily be seen that we are not talking now of the law of the land, but of what really takes place. The fact will be denied by many to whom it will be new, but a little reflection will show its correctness, and as in our subsequent argument it will be found that a good deal rests upon it, we hope the point will be clearly understood. It is, indeed, well exemplified by a practice which of late years has grown up in London, Liverpool, and other commercial cities where bankers and others of the "monied class" now make advances on

dock warrants or orders for the *delivery* of goods, without even requiring a bill or promissory note—the deposit of the dock warrant duly indorsed by the borrower to the banker or "monied man" makes him the owner of the goods. The specific agreement naming a price at which the banker is to be at liberty to sell, is usually contained in a separate letter.

The amount lent in this manner at Liverpool, on the single article of cotton, would greatly surprise the uninitiated.

It may be observed, before quitting this subject, that it is on this principle that the relief given, in former times of commercial distress, by the issue of Exchequer-bills is to be explained. The Government having given the merchants Exchequer-bills, become the virtual holders of the produce or "resting stock" on which the advance is made, and the goods are in consequence withheld from the market until it has time to recover.

To return to the subject: the number of bills discounted or advances made by the "monied class" with what we may call "loanable accumulation," reaches an enormous amount. Sir George Stephens, in a recent publication entitled "The Principles of Commerce and Commercial Law," estimates the amount of these bills at 300,000,000*l*. Mr. Newmarsh, on the contrary, a much more reliable authority, in his work on the "New Supplies of

Gold," gives the amount 100,000,000*l*. The latter gentleman says,—"It would be very satisfactory if we could ascertain what amount of Bills of Exchange are always under discount in Great Britain, that is to say, what amount of ready capital is constantly employed in advances to traders and merchants upon the security of Bills of Exchange, or what is almost the same thing, upon the security of commodities."

And he goes on to frame an estimate of such probable amounts, but as he does not include private loans made, without the intervention of bankers, we are not disposed to place any great reliance upon it. Bills of Exchange of late, owing to the high stamp duty, have not increased among the smaller traders who have got into a practice of paying the wholesale dealer at fixed periods without giving a bill; and among merchants, bankers, and others, dock warrants, &c., have, as before observed, been much substituted.

On the whole, we are inclined to think that 180,000,000*l*. may be considered as the nearest approximation which we can obtain to the total amount of loans with which at this time the "monied class" have supplied producers, merchants, or others* over and above the very large amount

* Mr. D. B. Chapman, in his evidence before the Bank Acts Committee, estimates the amount of *bills* at from 100,000,000*l*. to 120,000,000*l*.—Question 5,274.

such producers, &c., have themselves invested in produce. The amount, however, whether more or less, is not material to the argument; its increase during peace has been very large, and especially since the gold discoveries.* It is only necessary to observe that, on the principle before laid down, the total amount, whatever it may be, represents that portion of the "resting stock" of English and foreign produce in the hands of merchants, manufacturers, &c., which really belongs to the "monied men," and not to those in whose hands the goods are. However large the amount, all the operations connected with it are probably carried on by twelve or fifteen millions of actual currency. The bills are paid as the "resting stock" is used and consumed, and the money is again lent as that stock is reproduced, the bankers, &c., merely keeping a reserve sufficient to enable them, in ordinary times, to repay any customers who may require their money.

It is scarcely necessary to observe that there is no country in the world where this "loanable accumulation" reaches one-half the amount it does in Great Britain, and even the amount temporarily supplied to other countries in the shape of produce, &c., particularly to America, is far larger than would enter into ordinary calculation.

* Observe, for example, the rapid and enormous increase in the deposits of Joint Stock and other banks, the result of these "loanable accumulations."

The legitimate check to the production of this "loanable accumulation" is, of course, the absence of demands for the "resting stock" in which the greater part of it is invested. This absence of demand for this stock for "use and consumption," from whatever cause arising, lowers the profits of the producers and middlemen, and induces them to give less interest; in familiar language, the rate of interest falls. The owners of money, or monied class, in consequence lay out more in unproductive produce, and the amount of "loanable accumulation" soon diminishes. God's laws, which regulate these matters, are as perfect as all his other laws, and we shall hereafter see, it is only when man interferes with the operation of these laws on a great scale, that difficulties and derangements, or, to use more parliamentary words, "pressure" and "panic," ensue.

CHAPTER IV.

ON INTERFERENCE WITH THE MONETARY LAWS, AND ITS CONSEQUENCES.

We have now traced the natural and ordinary course of trade and commerce,—how in a healthy state of affairs the accumulated stock of produce or labour is "used and consumed," so that the "resting stock" may get into the same hands, with a view to its "use and consumption," and thus clear the way for the produce of the annual labour of the country. We have shown also how money or currency facilitates these necessary transactions, and explained the laws by which that currency is regulated. We now proceed to discuss the consequences of any extensive interference with these varied operations, and, with a view to place a complicated subject in a somewhat clearer light, we will, as in the case of "national accumulations," work out a supposed case in detail.

To this end, let us assume that the currency of England is eighty millions, and that she is doing what she has not been allowed to do since 1797, expanding the amount from time to time, as the natural circumstances of trade require, either by in-

creased facilities in banking, or by the actual import of specie, without any additional issue of bank notes; that her "resting stock" is in a healthy state of progressive consumption; and her labourers fairly employed. Under these circumstances, we will suppose that an application is made and assented to by the Bank of England, to discount two millions of good commercial bills, and that they do so by the creation of an extra two millions of bank notes.

The first effect of this issue, on the principles before laid down, is to make the bank holders *pro tem.* of the two millions of the "*resting stock*" for which the bills are drawn, and at the same time, to relieve the legal owners from the necessity of selling it during the time these bills have to run.

If the bank simultaneously called in two millions of their notes (sold, for example, two millions of Exchequer-bills), here the transaction would end; the Exchequer-bill market would be temporarily depressed, and the produce market relieved; the money, however, would soon find its way into the channels from which it had been taken, and things return to their ordinary course.

But we assume that the bank makes no such sale of Exchequer-bills, and that the two millions come as an *addition* to the eighty millions. The produce market, as before observed, is relieved from the

immediate pressure of "resting stock," and the effect of the money itself is to create activity in the market. As a necessary consequence speculative buying and selling increase; bills are multiplied; and, in lieu of the two millions finding its way back to the bank, applications are made to them for extra discounts and a further issue.

We will suppose, however, that the Directors, satisfied with having increased the money in circulation to the extent of two millions, continue to discount only to the extent necessary to keep the amount eighty-two millions. The effect of this addition of two millions, besides relieving and giving activity to the produce market, is, on the principles before laid down, to lower the value of the eighty millions. Let us estimate this roughly at three per cent. The *measure* of value thus lowered, produce *apparently* rises, and as at the same time an artificial addition of two millions is made to the "loanable accumulation," the rate of interest falls in consequence.

We have now an *apparent* rise in the price of produce, by which the profits of producers and middlemen are increased, and they are urged to augment the "resting stock," whilst the artificial addition to the "loanable accumulation" adds to their means and enables them to do so. This state of things necessarily brings about a competition for

labour, the money rate of wages is in many employments improved, consumption is increased, especially in those articles which contribute to the comfort and luxury of the labourers. Machinery comes into full and active operation; the exports and imports are enlarged; the public revenue is augmented; and the country, to all outward appearances, is rapidly advancing in prosperity. This is invariably the case when the value of money is falling and producers and middlemen are provided with the means of increasing the "resting stock." Alas, how often has this prosperity been the boast of Chancellors of the Exchequer!

To proceed: after a certain time it is found that the extra two millions has made the currency of this country in excess relatively to the currency of other countries; the exchanges become unfavourable, and gold is in consequence exported.

This export increases the money in other countries, and its value is lowered there also, followed by the same apparent rise in the price of commodities. Similar exertions are made to increase the "resting stock," and an impetus is thus given to the market for labour, and to the employment of machinery; the same effect, in short, is produced abroad as in this country, though to a more limited extent.

All this looks very well, but unfortunately experience shows that it is only a one-sided work; no

such rapid and general rise takes place in the money wages of the labourers, who are the great consumers, as is necessary to enable them to purchase and consume the extraordinary supply thus artificially stimulated. Wages are kept down in a variety of ways, especially by the competition of machinery; and on these occasions are not found to rise so rapidly or to the same extent as produce. The rise in the price of produce also diminishes the usual consumption of persons of fixed incomes, and even those who participate in the apparent prosperity do not, from the force of long habit, purchase so as in any great degree to augment their consumption.

The result is, that the "resting stock," not getting into use and consumption in its ordinary healthy way, steadily augments at home and abroad. After a time the producers and middlemen begin to find the quantity on hand large, and require more money to enable them to hold it. The Bank of England does not come into the market to give further help; the rate of interest therefore rises. This for a time checks the increase of the "resting stock," but at the same time it stimulates to saving, and "loanable accumulations" increase. Producers and middlemen are thus for a time supplied with money to go on, and the "resting stock" becomes still larger. It is always found that so long as the stimulant of an increasing

supply of money continues, apparent prosperity increases; the producers and middlemen, whilst its value is falling, are making such large apparent profits that they can afford to pay a high rate of interest. The day of reckoning, however, comes, the delay only augments the evil, the "resting stock" makes itself *felt,* the supply of money ultimately finds its representative in produce, that is, in the "resting stock;" and the money market, to use a well-known word, becomes more and more "tight;" the banks call on the producers or middlemen, who are manufacturing or trading most largely with borrowed money, to pay, they feel the "pressure" of an over-supply, and the markets soon become overwhelmed with their produce. Those who sell early escape, but the "resting stock" being in excess, the later ones meet with no purchasers, and fail. This alarms the monied men, and a "panic" follows; both "pressure" and "panic," properly understood, being merely the legitimate consequences of this previous artificial addition to the currency, which has stimulated the excessive production. *

* Common sense shows that where there is no interference with the "resting stock," or market for labour, a panic is merely like the telling out of a cable and pulling it back again; even if a bank temporarily suspends payment, supposing its money well lent, it is soon paid, and the bank resumes.

The reaction, once begun, goes on in earnest; labourers who had been required to make excessive exertion, and demoralized by a sudden rise in wages, are at once discharged, even those who find employment do so at a lower rate, and their consumption is consequently checked. Ultimately the nation, whilst abounding in all the outward materials which constitute wealth, finds itself in the deepest distress. This is an imaginary case, but we had real examples of it in 1810, 1816, 1819, but especially in 1825, when the Bank, by continuing to issue notes to fill up the vacuum occasioned by the export of specie, kept the "resting stock" out of the market for an unusually long period, producing a vast augmentation of it, and consequently a crisis of unequalled magnitude.

The last crisis occasioned by an augmentation of the currency, and an undue increase of the "resting stock," was in 1847.

CHAPTER V.

ON THE EFFECT OF THE GOLD SUPPLIES.

We have thus pointed out how it appears to us the periods of commercial difficulty in times past are mainly to be accounted for, viz., the rapid additions to the currency, and the consequent fall in the value of money, deceiving producers and middlemen, and at the same time supplying them with additional means of production, thus causing an over excitement of the labour market, and an excessive "resting stock," followed more or less rapidly, by a depression in the price of produce and distress amongst the labourers, corresponding in intensity and duration with the previous excitement.

Taking this view of the consequences of any sudden augmentation of the currency of a country, it cannot be supposed we look with any favour on the issue of notes payable on demand, either by the Bank of England or any other body of men. In our opinion it is to this cause, more than to any other single one, that we are to trace the most considerable social evils which have in modern times afflicted society.

For the last sixty or seventy years the currency of the world has never been at rest. Men, making a profit by artificial additions to it, have not ceased their efforts to augment the quantity. Committees of Inquiry—Legislative enactments—even our boasted system of publicity, have all failed to bring this enormous evil under any effectual control. We can see the consequences of reducing the quantity of specie in our coins whilst the denomination remains the same, but we cannot see the still more important effects produced by taking away the specie altogether, or, to use a better word, the "labour," and substituting in lieu of our coins a *creation without labour*.

If any article could be as easily brought into existence to answer the purpose of stone or timber or iron, or even of sheep or oxen, as paper money answers the purpose of gold and silver, we should at once see how demand and supply would be deranged. And yet, to every man who will exert his common sense, the cases are similar, nor does it require the gift of prophecy to foretell that "supply and demand" will never have fair play so long as any body of men have the power of adding to the currency and making a profit by it;* nor must we ever expect to avoid

* Mr. Tooke, as quoted by Lord Overstone—Question 3,648, Bank Acts' Committee—says, "It strikes me to be a most

those terrible monetary convulsions which have of late years so deeply affected the world, whilst we thus persist in interfering with the laws of God.

It will be seen that in thus discussing the question of a paper issue we are not digressing from our subject. It has a most important bearing on the gold supplies.

To begin the latter question with first principles from our great master.

Adam Smith speaking of gold and silver thus expresses himself:—

"Gold and silver, however, like every other commodity, vary in value, are sometimes cheaper, sometimes dearer, sometimes of easier, and sometimes of more difficult purchase. The quantity of labour which any particular quantity of these can purchase or command, or the quantity of other goods which it will exchange for, depends always upon the fertility or barrenness of the mines which happen to be known about the time when such exchanges are made. The discovery of the abundant mines of America, reduced in the 16th century the value of gold and silver in Europe, to a third of what it had been before. As

extraordinary circumstance connected with the country issue of paper money, that whereas Government invests with a number of sanctions the privilege of issuing coin upon the intrinsic metals, by which nothing is to be gained, it should allow individuals the privilege of coining it upon a material which in itself is worth nothing, and consequently upon which there is a very great gain, by substitution of it for the other, which is of intrinsic value."

it costs less labour to bring those metals from the mine to the market, so when they were brought thither, they could purchase or command less labour."

Of course we entirely agree in this statement of the case, and we would add the following remarks.

The uses to which silver and gold have been applied gives them a peculiarity which belongs to no other metals, nor indeed to anything else. Had iron, or lead, or quicksilver, been found in anything like the same relative quantity, and been obtained with the same increased ease, or rather with the same diminution of labour, the value or price, as estimated in gold or silver, would, under the ordinary circumstances of supply and demand, have fallen rapidly, and continued low, so long as the facility for thus obtaining the metals remained—"Labour is the foundation of exchangeable value." Then why, it may be asked, have not gold and silver fallen? Many people say, "they have not fallen because of the demand," but these persons are bound to show that there has been such a change in the state of the world since the discoveries of gold, independently of that produced by the gold itself, as to create this extraordinary demand. Our view of the subject, founded on the principles of Adam Smith, is that these metals have considerably fallen in value, and that the fall

is only not apparent, because there is no standard or index by which to measure it.

Experience and reason alike show that the price of coined gold, as estimated in uncoined gold, cannot materially fall, because the coined gold can at any time be put into the melting pot, and made uncoined gold; but is not the reverse equally true? that the price of uncoined gold cannot fall materially below that of coined gold, because uncoined gold can always be sent to the Mint, and coined with only a trifling loss of interest. Gold and silver are commodities, it is true; but they are commodities unlike all others, inasmuch as, from their employment as money, there is always an abundant supply to be obtained at a fixed price, so long as there is a melting-pot available; and an equally certain market where any quantity, however large, can be disposed of at a fixed rate, while the mines of the world are open. It may, however, again be asked, May not gold alter in price as compared with silver? On this subject it may be remarked that quicksilver mines have been discovered in California, which yield that article so necessary to the production of silver, in such large quantities as to have occasioned a great reduction in its value, and that this reduction has necessarily greatly lowered the value of silver.

Mr. Newmarsh writes:—

"It will be seen that the fall in price (of quicksilver) since June, 1850, is not less than forty per cent., and this fall appears to have arisen wholly from increase of supply."

And he adds:—

"In 1852 the annual produce of silver in Europe and America was not less than twenty-five per cent. greater than in 1837."

Even if this increased facility of production, or, in other words, this fall, in the real value of silver had not taken place, we do not see how silver, connected as it is by law with gold, and exchangeable for it at a certain fixed rate, could have *shown* any material fall in the value of gold. It could not have done so in a coined state, that is quite clear—the law prevents it; and it seems equally clear that it could not have done so in an uncoined state, so long as any silver coin, not materially deteriorated by seignorage, wear, or otherwise, remained to be melted. Assuming, therefore, that the labour of producing and bringing to market the two metals had not fallen nearly to the same extent, which we are inclined to think is the case, it would seem to us unlikely that, under our existing regulations, there could have been, for some time yet to come, any material marketable difference or what is called price. The fact that quicksilver, not being employed as currency, has fallen forty per cent. since the dis-

covery of the mines in California, merely from an increased means of obtaining a supply, would seem conclusively to settle the question of a fall in the value of gold and silver, if the matter were not already plain.

Had statesmen really desired to moderate the effects resulting from the gold discoveries, and to have brought about gradually, and without any material shock to society, the great change they must of themselves have inevitably occasioned, the obvious way to have accomplished this would have been to have diminished the quantity of paper which was, previous to its discovery, employed as its substitute, and to have checked the formation of banks. Instead of doing so, however, it is a remarkable fact that there is not any country in the commercial world which has not greatly increased both. The gifts of the Almighty have, in fact, been used merely as the foundation on which to raise an enormous artificial superstructure of banks and paper. Can it be matter of surprise, then, that gold and silver are especially scarce in England and France? Can we expect to have the expensive reality when we have so amply provided the cheap substitute? In both countries, as well as in America, banks and paper have filled—we may say, greatly overfilled the circulation. Transactions the most gigantic and unprecedented are by their instrumen-

tality daily completed,* and high prices maintained. It is, therefore, a natural — nay, an inevitable consequence that specie following, as before explained, the law of "supply and demand," finds its way to those countries where it forms the mass of the currency, and where, as banks do not exist or are not in credit, "national accumulation" necessarily takes the form of money.

Leaving this matter, however, to those who may think proper to argue upon it, and there are few subjects on which less wisdom is shown,—it will be universally allowed that the currency of the world, taken as a whole, has since these gold discoveries, greatly increased;† and if there be truth in what has gone before, the effect of this has been gradually but steadily to lower the value of money, to raise the nominal price of goods, and to deceive producers, middlemen, &c. So deceived, they have been induced to urge on their labourers, machinery, &c., and to bring into existence an immense "resting stock,"

* Committee Bank Acts—Question 2,463 :—"The larger proportion of the public Dividends are now paid by a mere stroke of the pen; the amount of Dividends due to each banker, not only for himself, but for all his constituents, is carried to his credit in one line, and three or four millions of Dividends are in that way disposed of."

† The increase, according to the evidence of the Governor of the Bank—Question 17—is about 135,000,000*l*., Mr. Newmarsh estimates the previous Stock at 550,000,000*l*.

even, in some cases, to the exhaustion of the stock of raw material itself; and this excess, not as heretofore confined to one or two nations, but general throughout the commercial world.

The existence of this large "resting stock" began to show itself in this country in 1853, when, by a rise in the rate of interest, it was clear that producers and middlemen had nearly got to the limit of the "loanable accumulation," and were beginning to bid against each other for money to enable them to retain their "resting stocks." In 1854 a commercial "crisis" seemed inevitable, the presence of an over-supply was felt, and panic was apparently near at hand. At that period, however, the war broke out, and, by providing a new demand for labour and machinery, put an effectual stop to the accumulations of the "resting stock." Labourers were required to manufacture the munitions of war—other labourers were taken out of the market to fight our battles—the fall in wages was prevented—nay, they rose; as a natural consequence, a considerable portion of the "resting stock" got into consumption, and thus, to a great extent, the equilibrium was restored. The money arrangements by which this was brought about are fully explained in the extract from Mr. Ricardo (page 25). The taxes lessened individual accumulation, and the loans took off a portion of the accumulations of the "monied class;" ordi-

nary manufacturers had thus a diminished supply of money, and, through the intervention of Government, those who manufactured guns, gunpowder, &c., obtained an increased quantity.

It will, no doubt, surprise many to be told that war for a time averted, or at least delayed, a still greater impending calamity; but it must be remembered that "God's ways are not as our ways." It pleased Him to send us an unusual supply of gold and silver, and we did not use it with wisdom and moderation. Not satisfied with what He had given us, we greatly added to our artificial supply by means of paper and banks, producing a fever of excitement without any previous example, and stimulating our labourers to produce goods until we got far beyond any probable demand for "use and consumption." War suspended man's handy work, and for a time destroyed no small portion of it, but with peace this work was resumed, our overgrown "resting stock" has been rapidly re-accumulated, producers and middlemen are now, as heretofore, bidding against each other for money to enable them to keep that stock out of the market, and the rate of interest has in consequence greatly risen. It only remains for time and experience to show, that though raising the rate of interest delays, it does not remedy the evil, it undoubtedly prevents producers from going on quite so fast; but on the other hand, it

stimulates to saving and thus enables the "resting stock" to increase; under any circumstances it has obviously no tendency to clear away that stock. Here is and must continue to be, the great and enduring difficulty.

It must be admitted that it takes some time to overstock the world, and there are many things which, for a limited period, counteract the operation of general principles. Among these we may mention the facility with which "loanable accumulations" are transferred from one country to another, their rapid accumulation when interest is high, the formation of new banks, the creation of additional paper, the operation of such a mighty machine as the "credit mobilier" of France, the large amount of gold coming in from the diggings,*—all these causes have been in operation to keep the labourer employed, and the "resting stock" increasing. A pressure has begun in France, in America, and in this country, and a panic has appeared inevitable; but a million or two of gold has arrived, or a new bank has been established, more money has been created, its value has been still further lowered, and by enormous exertion the "resting stock" has been kept out of the market. In spite of the repeated examples we have had of the most extensive mischief

* The recent surprising (to use no stronger word) conduct of the Bank of France in issuing small notes may be added.

resulting from the issue of paper, even when it has been payable in gold, men continue to persuade themselves, that whilst it is so paid there can be no evil; they will not see the excessive "resting stock" which it brings into existence, and which it enables producers, middlemen, shopkeepers, &c., to keep out of the market. By the manner in which the gold supplies have been made the foundation of a continued and increasing issue of paper and multiplication of banks, the Birmingham School, who have always said, "Continue to supply currency, and all will go on well," have obtained the most extraordinary means of working out the truth of their theory, and we heartily wish we could be persuaded that they are right. Our judgment, however, tells us that the general principles we have ventured to lay down are and must be in steady operation—that the vast "resting stock" is not consumed. Does the breathless anxiety with which the commercial world now looks to the Banks of England and France awaken no suspicion? Does the increasing pressure on the 4th of each month tell no tale? Are things in a natural state? To us there does not appear anything approaching to such a clearing away of this "resting stock" as will prevent an overwhelming depression of the labour market, when the banks can no longer increase their paper, and the "monied class" supply "loanable accumulation."

Some failures among producers or middlemen, some alarm amongst the banks—in short, something analogous to what occurs when the export of specie is forced from a single nation, must speedily take place; and when that occurs, it seems to us certain that the "resting stock" will come into the market, and "*produce*," not to say property in general, experience an extent of depreciation, and the market for labour a degree of stagnation, altogether without example in the history of the world.

May 18, 1857.

Since this was written, the following article, preceded by many others of a similar character, has appeared in the "Times." The writer inserts it by way of contrast to his own views. Holding the opinions he does, he need scarcely say he sees no such change in the state of the world, nor in man's powers of consumption, as to lead him to hope such an increase to the "resting stock" as that described, can find a market for "use and consumption:"—

From the Times, Tuesday, April 28, 1857.

"To speak of the state of the country at the present time is only to repeat continually the word 'prosperity.' Both the United Kingdom and its colonies seem to be advancing in a career of material increase of which it is impossible to predict the term. The

accounts relating to trade and navigation for the first quarter of 1857 have just been published, and show an advance sufficiently striking even on the prosperous year 1856. The total declared value of the exports of the United Kingdom for the month of March was 10,456,348*l.* sterling, and for the first quarter of the year 28,827,493*l.* Both the month and the quarter show a considerable increase over the corresponding terms in 1856 and 1855. Taking the quarter, as allowing a fairer comparison, we find that the value of the exports was for 1855, 18,808,517*l.*; for 1856, 25,149,103*l.*; and for 1857, 28,827,493*l.*—or an increase of about 15 per cent. on last year. Now, as the total amount for 1856 was nearly 116,000,000*l.*, we may expect, if this advance be kept through the whole of the four quarters, that the total value of exports for the present year will exceed 133,000,000*l.* This enormous amount is evidently the fruit of no temporary or morbidly stimulated traffic, but represents a legitimate and progressive increase in the production and commerce of the country. When it is considered that the exports of 1855 were only 98,000,000*l.*, and that consequently there has been an increase of more than one-third within two years, no argument is necessary to prove that the country is advancing at a rate which leaves all calculation behind.

"With regard to the details of our import and export trade some interesting facts are found in the return. The British people are not disposed to deny themselves the luxuries which their increasing wealth can purchase, so that it is natural to find a large advance in quantity and value of all kinds of imports. In spite of the apprehended murrain, 7,318 oxen, bulls, and cows were imported in the first quarter of 1857,—a number much in advance

of 1856, though not equalling the importation of 1855, which seems to have been particularly large. The materials for innocent beverages have been brought into the country in greatly increased quantities. Of cocoa 1,713,000 lb. were imported in the first quarter of 1857 against 1,024,192 in 1856, and 734,558 in 1855. It would seem, therefore, that the consumption of this nourishing drink has doubled in two years. Coffee shows a considerable fluctuation. In 1855 the importation for the quarter was 4,107,467 lb., for 1856 it fell off to 3,676,925 lb., and for 1857 it is 5,042,833 lb. Although, of course, a single quarter, and particularly the winter quarter, does not give an average free from the influence of all disturbing causes, yet it is pretty clear that a large augmentation in the consumption has taken place within the two years, indicating a corresponding increase in the comforts of the people. The quantity of wheat imported during the late quarter was 599,492 quarters,—but little less than the importation for last year, and considerably greater than that for 1855, which amounted to 422,285 quarters. The wheat meal and flour imported is almost the same as last year; it amounts to 631,328 quarters, while the importation for 1855 was 348,672. The increase in the quantity of these articles brought from the United States is truly wonderful. In 1855 it was 142,416 quarters; in 1857 it is 596,814 for the same term of three months.

"The importation of cotton shows a decrease compared with 1856, but still is far in advance of 1855. For the first quarter of 1855, 1,559,782 cwt. were imported; for 1856, 1,843,703; for 1857, 1,716,586. The quantity from the United States is, however, less than in either of the two previous years, being 1,390,058 cwt. in 1857, against 1,590,661 in 1856,

and 1,431,234 in 1855. To remedy in some degree this deficiency we have a gratifying increase in the importation from India, the quantity being in the first quarter of 1855, 75,222 cwt., and for the corresponding periods of the two next years, 171,110 and 191,688. The importation from Egypt has also more than doubled within the two years, while that from Brazil has increased from 28,414 lb. to 81,112 lb. Although the statistics of so short a term may be delusive, yet it is to be hoped that they represent in this case a growing increase in the cotton production of the globe, and that the danger, so much dreaded, of the spindles of Lancashire and New England lacking their supply of material may never be realized. After corn and cotton all other products are of small importance. We may, however, relate, for the gratification of the curious, that 1,430,807 pairs of gloves were imported in the last three months; that during the same term 26,041,600 eggs were brought into the country, or nearly an egg a-piece for the whole population. The quantity of wine entered for home consumption shows a steady increase. It was for the first quarter of 1855 1,454,105 gallons, and for the first quarter of the last and the present year 1,742,877 and 1,935,293 gallons respectively.

" The scale on which our export trade is conducted may be conceived from the fact that in the first quarter of 1855 we supplied foreign countries and our own colonies with 772,778 tons of coal; that the quantity for the same term of 1856 rose to 1,072,037 tons; and that for the present year it is 1,254,107 tons. A million and a-quarter of tons of coal exported in three months gives a sufficient proof how much the world is dependent on the resources of this country, and also at what an accelerated rate

we are bringing into requisition the supplies of fuel which exist in the bowels of the earth. With regard to our greatest article of manufacture, we find that the declared value of the cotton goods exported in the last three months was 7,267,432*l.* against 6,332,269*l.* in 1856, and 5,882,096*l.* in the year before. The exports of cotton amount in value to considerably more than a-third of the whole. Iron and woollens come next, and the increase has been considerable on almost every item. So that before arriving at the bottom of the list we are quite prepared to find that even the vast total amount of the last year's exports is likely to be largely exceeded.

"The account of the number and tonnage of vessels which entered inwards and cleared outwards with cargoes for the first quarter of the three years shows an increase in navigation corresponding to the progress in manufactures. For the quarter ending March the 31st, 1855-6-7, the tonnage of the shipping entered inwards was 1,118,213, 1,318,310, and 1,436,616. Of this last amount, representing the first quarter of the present year, 893,008 tons were British, and 275,262 American. We may state, for the satisfaction of the prophets who saw ruin in the repeal of the navigation laws, that we are holding our own on the seas. The British tonnage for the three quarterly terms is 687,444, 840,485, and 893,008 tons; the American, 262,353, 254,931, and 275,262 tons. We therefore have our full share of the increase. The return of vessels cleared outwards shows pretty much the same state of things. The tonnage of British ships taking out cargoes has risen from 926,593 in the first quarter of 1855 to 1,199,950 for the same period of 1856, and 1,363,975 for 1857,—an increase of nearly fifty per cent., forming a conclusive

proof of the vigour of our export trade. On the whole, these returns are to the full as satisfactory as the most hopeful man could have desired. It is now evident that the sudden rise of 1856 was not merely the reaction from the depression of war, but the natural, though surprising, progress of an active and enterprising people."*

Again, in the "Times" of the 10th of June, 1857:—

"IRELAND IN 1857.

"After a brief reference to the social state of Ireland some ten years back, the 'Banner of Ulster' thus describes the position and prospects of the country in 1857:—

"'We hear much of the difficulty of procuring hands at out-door labour, and those whose vocation it is to grumble wax eloquent in describing the great scarcity of workpeople; but who that recollects the melancholy state of things in Ireland ten years ago will not sing of Fifty-seven? On the 1st of January, 1849, there were 620,000 paupers in all the union workhouses and on the books of outdoor relief. On the same date of the present year Ireland's pauper population was only about 65,000, or say one pauper to every hundred of the population. Surely the Saxon as well as the Celt should exult in this, the greatest miracle of modern days, that Ireland is fast becoming one of the least pauperized countries in Europe. The vast influence which successful or depressive agriculture exercises on the financial condition of any nation is very fully illustrated by the relative returns of Irish banks in 1849

* In the face of such an article as this some will tell us that the country wants capital. Surely capital is only "accumulated labour." Do not let us be deceived by words.

and in 1857. We give the figures of note circulation at all the Irish banks, as well as the amount of bullion held in September, 1849, and those of the last month's (May) account:—

	Note circulation.	Bullion.
1849 ...	£3,840,450 ...	£1,625,000
1857 ...	7,150,000 ...	2,492,000

1857 promises, more than any other year for the last twenty, to give effect to industrial prosperity in Ireland. Large additional tracts of soil have been placed under the plough and spade. Hundreds of acres of land in Ulster which had not been broken up for half a century are now sown in grain, or planted with potatoes. The effect of these improvements can hardly be estimated at their full value. Not only have they increased the productive powers of the soil, in many cases fully one-third, and in some instances one-half, but they made land so much more easily cultivated that during the recent push to get in the oats and potatoes, there was more work done in a single week than was usually performed in a whole month.

" 'While farming operations were thus pushed on, the process of vegetation seemed to rise in proportion to the emergency, and the result has been that here, on the 2d day of June, the potato lands planted early last month are as well forward as those of the same period of last year, and when the finish had been three weeks earlier. Oats never appeared better, and wheat lands exhibit continued luxuriousness. Absence of those frosts which acted so severely on the potato lands last year has done good service to the young plants, and if the present splendid weather continues, the early crop of potatoes will be ready for market much earlier than could have been anticipated. During the four months ending the 30th of April

there were imported into the United Kingdom 9,157 horned cattle, 4,368 calves, 11,798 sheep, and 287 hogs. This would tell of what the Duke of Richmond called "ruinous competition." At present, however, the "ruined" agriculturists are obtaining for all descriptions of farm stock nearly 100 per cent. above the quotations of 1842. So much for the state of the country, free-trade, and foreign competition. Who would not sing of fifty-seven?' "

Who that lived in 1824 and 1825 but would not think himself carried back to those days? Read, for example, the following brief extracts from the Annual Registers of those years:—

1824 (page 1). "There was in the present year no diminution of that prosperity which the country had enjoyed throughout the whole of 1823. Even country gentlemen, the most querulous of all classes, the least accustomed to suffer, and the most incapable of struggling with difficulties, when difficulties present themselves, could no longer complain.

"The crisis was past, and its effects were every day less felt. All agricultural produce was slowly but steadily on the rise.

"Wheat, which in 1822 afforded an average of only 43*s*. 3*d*. per quarter, gave in 1823 an average of 51*s*. 9*d*., and in 1824 the price increased so much, that the average for it was 62*s*.

"This rise in the price of provisions was not attended with any inconvenience to the working classes, for the demand for labour secured to them steady employment and good wages. In the cotton trade there was a rapid increase, and the manufacturers of wool, iron, and hardware, were equally prosperous."

1825, page 2. "Nearly all property had risen greatly in pecuniary value, and every branch of internal industry was thriving. Agricultural distress had disappeared; the persons employed in cotton and woollen manufactures were in full employment; the various departments of the iron trade were flourishing; on all sides new buildings were in the progress of erection; and money was so abundant, that men of enterprise, though without capital, found no difficulty in commanding funds for any plausible undertaking. This substantial and solid prosperity was stimulated to an additional extent, and was in appearance still further magnified, by the operation of the many joint-stock companies which had sprung into sudden existence in the former year. Some of these had put in motion a considerable quantity of industry, and increased the demand for various articles; and all of them at their commencement, and for some time afterwards, tended to throw a certain sum of money into more active circulation, and to multiply the transfers of property from one hand to another. As these speculations still retained their popularity, the apparent prosperity arising from their artificial stimulus, presented an imposing aspect. New companies were formed; day after day teemed with successive projects; and the shares of joint-stock companies not only sustained the absurdly high prices which they reached in 1824, but even rose far higher."

Our present painful anticipations are expressed, though very feebly, by the following extract from the same work for 1826:—

1826, page 1. "The commencement of the present year was marked by a continuance of that depression in manufactures and commerce, which

had prevailed at the close of the preceding. The demand for the labour of the artisan had not yet revived; and the want of employment and its concomitant misery, were the results. Neither had private credit yet been restored; the failure of private bankers, both in the metropolis and in the country, continued to multiply, though much less rapidly than in the end of 1825; and the universal distrust which existed, by limiting the facilities of obtaining discounts and advances, deprived commerce of its natural aids, and increased the difficulties of the trader. The ship-owners, likewise, were suffering from the inability to procure freights, an inability occasioned by the foreign markets being glutted, and by there being, therefore, a scarcity of employment for ships, because there was a cessation in the demand for the articles which ships were to convey. There was thus, throughout the whole community, a great deal of pecuniary embarrassment, of comparative privation, and of positive suffering.

"No man, indeed, who looked impartially at the causes which had led to such consequences in the mercantile and manufacturing world, could see in them reason to doubt the solid resources, or the public credit of the country; and except that the ship-owners ascribed their difficulties to the changes lately introduced into the Navigation Laws, and that the unemployed artisans of Lancashire rose riotously, on one occasion, for the destruction of machinery, there was no spirit of discontent, nor any tendency to disturb the public peace. The lower classes, in particular, bore their sufferings with a quietness and resignation which insured universal sympathy; in every quarter of the empire, liberal subscriptions were cheerfully made to alleviate the distress of the poor; still the distress existed

widely and severely, and doubts and difficulties threw a gloom over the manufacturing, the trading, and the monied interests of the country."

There does not appear to us anything in our present circumstances materially differing from the state of things which preceded 1793 and 1797, or more recently 1825 and 1847, except that the gold supplies have enabled us to go on longer, and cover a far wider space, thus making the inevitable reaction more severe. We repeat our earnest desire to be found altogether wrong.

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